

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15

STR-01 TRSE-00 FRB-03 PA-01 USIA-06 PRS-01 NIC-01

SAJ-01 SAB-01 /093 W

----- 009875

R 130804Z FEB 75

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC 3387

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

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E.O. 11652: N/A

TAGS: ETRD, COMECON

SUBJECT: JAROSZEWICZ DESCRIBES NEW PRICING MECHANISM FOR INTRA-CEMA TRADE

1. SUMMARY: IN HIS FEBRUARY 7 SPEECH TO THE WARSAW CONFERENCE OF THE POLISH UNITED WORKERS PARTY (PZPR), PRIME MINISTER JAROSZEWICZ OUTLINED THE SYSTEM APPROVED DURING THE LATEST SESSION OF THE CEMA EXECUTIVE COMMITTEE FOR SETTLING THE PRICES OF GOODS TRADED AMONG CEMA MEMBERS. ACCORDING TO JAROSZEWICZ, PRICES WILL BE RECALCULATED ANNUALLY, BASED ON AVERAGE WORLD PRICES FOR THE PRECEDING FIVE YEARS. THIS NEW PRICING POLICY, DESCRIBED BY JAROSZEWICZ AS A PROCESS OF "PERFECTING

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PRICES", WILL APPLY TO INDUSTRIAL GOODS, PARTICULARLY

THOSE REQUIREING RELATIVELY LARGE AMOUNTS OF MATERIAL, E.G., SHIPS AND RAIL CARS, AS WELL AS RAW MATERIALS. END SUMMARY.

2. JAROSZEWCZ'S REMARKS ON CEMA TRADE WERE AMONG THOSE PORTIONS OF HIS SPEECH TO THE WARSAW PARTY LEADERSHIP QUOTED IN THE FEBRUARY 8-9 EDITION OF "TRYBUNA LUDU". POINTING OUT THAT THE ECONOMIES OF CEMA COUNTRIES ARE NOT ISOLATED FROM THE WORLD MARKET AND NOTING IN SOME DETAIL THE PRICE INCREASES OF RAW MATERIALS IN WORLD TRADE, THE PRIME MINISTER NEVERTHELESS TOOK CARE TO EMPHASIZE THAT CEMA PRICING POLICIES WOULD CONTINUE TO PROTECT MEMBER COUNTRIES AGAINST "SPECULATIVE" PRICE FLUCTUATIONS. THE NEW SYSTEM, HE SAID, WOULD ENCOURAGE MORE EFFECTIVE UTILIZATION OF FUELS AND RAW MATERIALS AND WOULD HAVE CONSIDERABLE INFLUENCE ON THE INITIATION OF JOINT INVESTMENT PROJECTS AND OTHER FORMS OF COOPERATION AMONG CEMA PARTNERS.

3. COMMENT: THE NET IMPACT OF THE NEW PRICE SYSTEM ON INDIVIDUAL CEMA MEMBERS WILL DEPEND ON THEIR TERMS OF TRADE IN THE ITEMS WHOSE PRICES ARE RISING. POLAND WILL PRESUMABLY BE HIT WITH SUBSTANTIAL INCREASES IN CRUDE OIL AND OTHER RAW MATERIALS PRICES, BUT SHOULD BENEFIT FROM HIGHER RETURNS ON EXPORTS OF COAL, SHIPS, RAIL CARS, AND MACHINERY TO ITS CEMA PARTNERS.

4. FOLLOWING THE INITIAL ROUND OF PRICE HIKES AS THE NEW SYSTEM IS INTRODUCED, THE AVERAGING FORMULA WILL PROVIDE CEMA MEMBERS WITH SOME CUSHIONING AGAINST THE FULL IMPACT OF WORLD-PRICE INCREASES. HOWEVER, CEMA PLANNERS MUST NOW COPE WITH ANNUAL PRICE RISES, HAVING LOST THE SECURITY OF LONGER-TERM PRICE AGREEMENTS. PARADOXICALLY, SHOULD THE NEW MECHANISM BE APPLIED DURING A PERIOD OF FALLING WORLD PRICES, CEMA PRICES WOULD DECLINE MORE SLOWLY THAN THOSE ON THE WORLD MARKET. THUS, CEMA SUPPLIERS WILL BERELATIVELY MORE RELUCTANT TO SELL AMONG THEMSELVES WHILE WORLD MARKET PRICES ARE RISING (AS IS REFLECTED BY RECENT POLISH AND SOVIET EFFORTS TO EXPAND HARD-CURRENCY SALES OF FUELS, EVEN AT THE EXPENSE OF THEIR CEMA PARTNERS) THAN WHEN WORLD

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PRICES ARE DROPPING.

5. ALTHOUGH JAROSZEWCZ DID NOT SAY WHEN THE NEW PRICE SYSTEM WOULD BECOME OPERATIVE, POLISH SOURCES HAVE TOLD US THAT INCREASES IN THE PRICE OF SOVIET OIL AND POLISH COAL WENT INTO EFFECT JANUARY 3. NO ONE HERE HAS YET NAMED A SPECIFIC FIGURE, BUT POLISH RADIO HAS MENTIONED A PRICE FOR SOVIET OIL "ONE-THIRD

BELOW THE WORLD PRICE", THUS PROVIDING GENERAL CONFIRMATION OF THE \$6.73-A-BARREL FIGURE CITED IN MOSCOWS 1390.

6. A "TRYBUNA LUDU" ARTICLE REPORTING ON THE POLISH-CZECH TRADE PROTOCOL CONCLUDED IN PRAGUE FEBRUARY 7 REFERS TO "CORRECTIONS" IN THE PRICES UNSPECIFIED ITEMS SOLD UNDER THE BILATERAL AGREEMENT. IT WOULD APPEAR THAT THE INEVITABLE CHAIN REACTION OF PRICE ADJUSTMENTS IN TRADE AMONG CEMA MEMBERS IS UNDER WAY.

END COMMENT.

DAVIES

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC CONDITIONS, LABOR UNIONS, SPEECHES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 13 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975WARSAW00879
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750052-0420
From: WARSAW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750244/aaaabng.a.tel
Line Count: 126
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 02 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 MAY 2003 by CunninFX>; APPROVED <19 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAROSZEWCZ DESCRIBES NEW PRICING MECHANISM FOR INTRA-CEMA TRADE
TAGS: ETRD, PL, COMECON, (JAROSZEWCZ, PIOTR)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006